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Gordon Mackay & Stores Limited

22nd ANNUAL REPORT

JANUARY 31, 1968

Subsidiary Companies

Gordon Mackay and Company Limited

Smith's of Windsor Limited

C. H. Smith Holdings Limited

Walker Stores Limited

RETAIL STORES ARE OPERATED BY

SMITH'S OF WINDSOR LIMITED IN WINDSOR, ONTARIO

AND BY WALKER'S DIVISION OF GORDON MACKAY AND
COMPANY LIMITED IN:

Arnprior	Pembroke
Barrie	Peterborough
Belleville	Port Colborne
Bowmanville	Renfrew
Brantford	Ridgetown
Brockville	St. Catharines
Chatham	St. Thomas
Collingwood	Sault Ste. Marie:
Dunnville	Churchill Plaza
Fort William	Queen Street
Galt	Simcoe
Guelph	Smiths Falls
Kitchener	Stratford
Lindsay	Tillsonburg
London	Toronto
Midland	Cloverdale Mall
Newmarket	Dixie Plaza
Niagara Falls	Dufferin Plaza
North Bay	Golden Mile Plaza
Orillia	Rexdale Plaza
Oshawa	Shopper's World
Owen Sound	Woodstock

GORDON MACKAY & STORES LIMITED

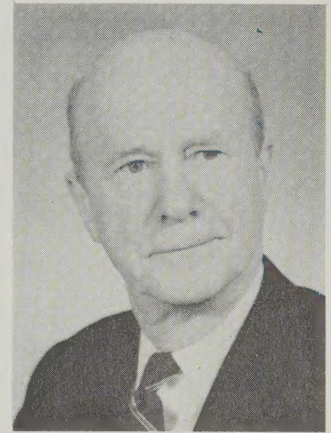
DIRECTORS



D. M. Woods



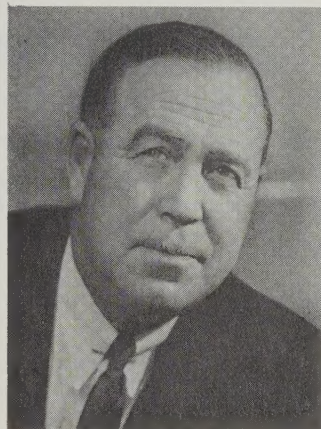
J. W. Walker, O.B.E., Q.C.



G. M. Scott, C.A.



R. W. L. Laidlaw



A. W. Baillie



W. L. Wheler

OFFICERS

President — David M. Woods

Vice-President — James W. Walker,
O.B.E., Q.C.

Secretary-Treasurer — G. Martyn Scott, C.A.

TRANSFER AGENTS

National Trust Company, Limited,
Toronto

COUNSEL

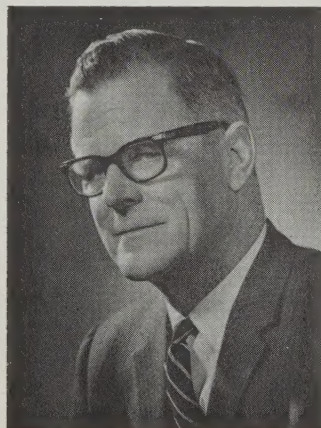
McCarthy & McCarthy, Toronto

HEAD OFFICE

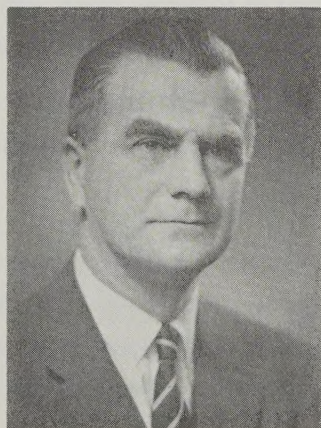
Gordon Mackay Road, Box 532,
Toronto 15, Ontario

AUDITORS

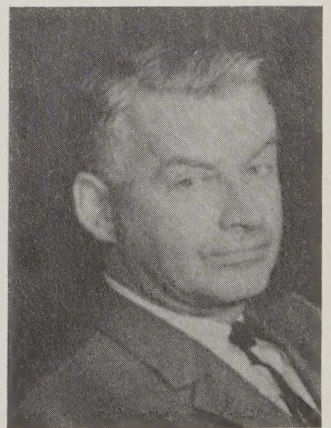
Clarkson, Gordon & Co.,
Toronto



W. G. M. Robinson, O.B.E., C.A.



W. P. Walker, O.B.E.



P. L. Woods

DIRECTORS' REPORT TO THE SHAREHOLDERS

The past year was one of consolidation after the rapid expansion of the last few years. Sales rose modestly, while profits showed a sharp improvement.

SALES

Sales increased by \$850,000 to \$34,150,000. During the last five years sales have grown by nearly 65%.

PROFITS

Profits improved over the previous year and compared favorably in amount with the results of any of the past eighteen years. Net income from operations, after interest, depreciation and provision for income taxes, amounted to \$392,000, compared with \$72,800 for the year ended January 31, 1967. This represented net income per Class 'B' share of \$1.44.

DIVIDENDS

Dividends were declared and paid at the rate of 50¢ per share on both Class 'A' and Class 'B' shares, thus continuing the payment of dividends since the public distribution of these shares in 1946.

WORKING CAPITAL AND SHAREHOLDERS' EQUITY

Working capital at the year end, amounted to \$2,111,200, an increase of \$1,119,900.

Shareholders' equity rose by \$197,400 and amounted to \$7,395,700 at the year end.

OPERATIONS

The past year has shown an improvement in gross revenue, some expense savings and an improved rate of stock turnover. Expenses were closely controlled and, despite increases in a number of areas, total expenses were slightly lower than in the previous year. Reduced depreciation charges were largely offset by increased financial costs. The newly acquired stores made satisfactory progress during the year and contributed significantly to the improved results.

At the year end there were 43 stores in operation, with a total of just over 500,000 square feet of selling space in use.

FINANCING

The loans received to finance the expansion of our operations which took place in the two preceding years have been continued with our Bankers on a secured and short term basis. It is intended to refund this financing when satisfactory longer-term arrangements can be made.

ORGANIZATION

During the year a change in the operating organization took place, whereby the buying, promotion and selling functions were grouped under the new position of Executive Vice-President. This is designed to improve the marketing process for all stores.

OUTLOOK

For the present year we plan no major expansion but will continue the consolidation of last year. Capital expenses are planned at about last year's figures, which will be sufficient to provide for normal replacement of equipment and some minor modernization of existing stores.

Profits are expected to improve in the current year through a combination of increased gross revenue and continued close control of expenses. Further improvement in the profit rate of the newly acquired stores is expected. Our objective is to produce a reasonable profit on the capital invested, and last year represented a definite move in this direction. Assuming a reasonably healthy economy, it is expected that this trend will continue in spite of anticipated increases in operating costs.

PROPOSED INCREASE OF BOARD

At the Annual Meeting shareholders will be asked to approve an increase in the membership of the Board of Directors from nine to ten. It is proposed that the Board would be increased through the election of Mr. R. J. O'Donnell who is Executive Vice-President and heads the Marketing Division of the Company. He has had long and effective experience in the retail fashion field with a number of leading American retail organizations.

RECOGNITION

Your Directors wish to record their gratitude to the nearly 2,600 full and part-time members of our staff who have been responsible for bringing about the improved results of this year.

On behalf of the Board,

D. M. Woods
President

CONSOLIDATED

JANUARY

(with comparative figure

Assets

	<u>1968</u>	<u>1967</u>
Current assets:		
Cash	\$ 140,164	\$ 152,157
Accounts receivable	4,087,484	3,934,049
Inventories of merchandise valued at the lower of cost and net realizable value	4,721,675	4,942,402
Prepaid expenses and sundry assets	159,365	180,613
Mortgage receivable	258,097	
Total current assets	<u>9,366,785</u>	<u>9,209,221</u>
Mortgage receivable		258,097
5% Special refundable tax	24,669	34,109
Investment in shares, at cost (approximate market value 1968 \$105,000, 1967 \$244,000)	182,413	182,413
Properties and equipment (note 1):		
Buildings and equipment, at cost	9,678,135	9,609,220
Less accumulated depreciation	<u>5,228,196</u>	<u>4,656,316</u>
	4,458,939	4,952,904
Land, at cost	<u>823,395</u>	<u>823,395</u>
Total properties and equipment	<u>5,282,334</u>	<u>5,776,299</u>
	<u>\$14,856,201</u>	<u>\$15,460,139</u>

Auditors' Report

To the Shareholders of Gordon Mackay & Stores Limited:

We have examined the consolidated balance sheet of Gordon Mackay & Stores Limited and its subsidiaries as at January 31, 1968 and the consolidated statements of income and earned surplus and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1968 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 28, 1968.

Clarkson, Gordon & Co.
Chartered Accountants

STORES LIMITED

laws of Ontario)
aries

BALANCE SHEET

1, 1968

January 31, 1967)

Liabilities and Shareholders' Equity

	1968	1967
Current liabilities:		
Bank borrowings (note 2)	\$ 5,833,202	\$ 6,944,856
Owing for merchandise, wages, etc.	1,205,992	1,135,714
Taxes payable	216,377	137,307
Total current liabilities	7,255,571	8,217,877
Mortgage payable	39,451	44,017
Deferred income taxes (note 3)	165,526	
Shareholders' equity:		
Capital stock —		
Authorized:		
300,000 Class A shares without nominal or par value, entitled to a fixed cumulative dividend of fifty cents per share per annum in priority to dividends on the Class B shares		
300,000 Class B shares without nominal or par value (note 4)		
Issued:		
201,600 Class A shares)	366,000	366,000
202,200 Class B shares)		
Contributed surplus (unchanged during year)	2,674,494	2,674,494
Earned surplus	4,355,159	4,157,751
Total shareholders' equity	7,395,653	7,198,245
	\$14,856,201	\$15,460,139

See accompanying notes to financial statements

On behalf of the Board:

D. M. WOODS, Director

J. W. WALKER, Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1968

1. Depreciation is written by the company at maximum rates normally permitted for income tax purposes (except for improvements on leaseholds over 15 years which are amortized more quickly than the maximum tax rates). The rates used are considered to reflect fairly the useful life of each type of asset used by the company. A summary of depreciable assets and accumulated depreciation is as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>
Buildings owned	\$3,189,462	\$1,019,189
Improvements to leased buildings	900,369	398,699
Furniture and equipment	<u>5,597,304</u>	<u>3,810,308</u>
	<u>\$9,687,135</u>	<u>\$5,228,196</u>

2. The company's bank borrowings (except for borrowings of a subsidiary operation) are secured by a first mortgage on properties and equipment and a floating charge on all of its other assets (other than the assets, totalling approximately \$2,200,000, of the said subsidiary operation).
3. The income tax provision reflects the normal charge applicable to the income earned by the company as reported herein. As a result, however, of differences in the reporting of income for tax purposes, a portion of the income taxes provided are not currently payable and have been shown on the balance sheet as "Deferred income taxes - \$165,526".
4. During the year, under the company's Incentive Stock Option Plan, options were granted on 4,000 Class "B" shares at \$10.00 per share, and options on 4,000 shares were cancelled. At January 31, 1968, there were outstanding options on 14,400 shares at \$10.00, 500 shares at \$11.00 and 2,000 shares at \$12.50. These expire at various dates between 1970 and 1977.

Leases

The company occupies its head office premises and 30 retail store locations on long-term leases for periods extending up to 22 years. Total rentals paid in the fiscal year ended January 31, 1968 on premises on long-term lease amounted to \$644,000.

Pension Plans

Under the company's pension plans adopted in prior years, the company incurred obligations with respect to the past service of employees. These are being absorbed by annual payments of approximately \$29,000, as recommended by the company's consulting actuary. At January 31, 1968 the present value of the remaining unfunded obligation is approximately \$432,000.

Statutory Information

The aggregate direct remuneration paid by the company to directors and senior officers amounted to \$133,274.

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Year Ended January 31, 1968

(with comparative figures for the year ended January 31, 1967)

	1968	1967
Sales (including sales of leased departments)	<u>\$34,150,441</u>	<u>\$33,299,930</u>
Income from operations before interest, depreciation and income taxes	\$ 1,882,146	\$ 1,208,146
Interest	466,998	356,709
Depreciation	<u>624,414</u>	<u>719,781</u>
Income from operations before income taxes	790,734	131,656
Income taxes (note 3)	<u>398,702</u>	<u>58,900</u>
Net income from operations	392,032	72,756
Add:		
Dividend income	7,276	28,079
Profit on disposal of property		<u>21,708</u>
Net income for the year	399,308	122,543
Earned surplus at beginning of year	<u>4,157,751</u>	<u>4,237,108</u>
	<u>4,557,059</u>	<u>4,359,651</u>
Dividends paid to shareholders:		
On Class A shares — 50¢ per share	100,800	100,800
On Class B shares — 50¢ per share	101,100	101,100
	<u>201,900</u>	<u>201,900</u>
Earned surplus at end of year	<u>\$ 4,355,159</u>	<u>\$ 4,157,751</u>

See accompanying notes to financial statements

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year Ended January 31, 1968

(with comparative figures for the year ended January 31, 1967)

	<u>1968</u>	<u>1967</u>
Source of funds:		
Operations and investments —		
Net income from operations	\$ 392,032	\$ 72,756
Depreciation (a charge against operating income that does not require an outlay of funds in the year)	624,414	719,781
Dividend income	7,276	28,079
Deferred income taxes (note 3)	165,526	
Funds from operations and investments	<u>1,189,248</u>	<u>820,616</u>
Mortgage receivable	258,097	
Proceeds on sale of properties and equipment	14,320	90,784
Total funds provided	<u>1,461,665</u>	<u>911,400</u>
Disposition of funds:		
Acquisition of properties and equipment	144,769	2,712,486
Dividends paid	201,900	201,900
Mortgage principal repayment	4,566	4,239
5% Special refundable tax	(9,440)	34,109
Total funds used	<u>341,795</u>	<u>2,952,734</u>
Net increase (reduction) of working capital	<u>\$ 1,119,870</u>	<u>\$ (2,041,334)</u>
Working capital, end of year	<u>\$ 2,111,214</u>	<u>\$ 991,344</u>

See accompanying notes to financial statements

FIVE YEAR REVIEW

For Years Ended January 31st

	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>
Sales (including sales of leased departments)	\$34,150,441	\$33,299,930	\$28,394,039	\$25,211,603	\$23,416,232
Income from operations before interest, depreciation and income taxes	1,882,146	1,208,146	1,338,337	1,143,489	1,288,845
Interest	466,998	356,709	155,893	132,025	116,307
Depreciation	624,414	719,781	554,553	447,279	424,809
Income from operations before income taxes	790,734	131,656	627,891	564,185	747,729
Income taxes	398,702	58,900	295,150	281,000	375,550
Net income from operations	392,032	72,756	332,741	283,185	372,179
Net income for the year (a)	399,308	122,543	514,126	386,308	530,151
Dividends paid	201,900	201,900	201,675	201,600	201,600
Property and equipment additions	144,769	2,712,486	1,506,305	786,503	623,564
Rentals on leased premises	644,000	646,000	625,500	549,000	465,000
Year end position (000's)					
Accounts receivable	4,087	3,934	3,101	2,335	2,104
Inventories	4,722	4,942	4,206	3,612	3,322
Bank borrowings (b)	5,833	6,945	3,178	1,683	2,001
Working capital	2,111	991	3,033	3,541	2,647
Shareholders' equity	7,396	7,198	7,278	6,877	6,692
Net income from operations per Class A share	1.94	.36	1.65	1.40	1.85
Fixed dividend paid Class A	.50	.50	.50	.50	.50
Net income from operations per Class B share	1.44	(.14)	1.15	.90	1.35
Dividend paid Class B	.50	.50	.50	.50	.50

Notes: (a) Including dividend income, profits on property disposals and income tax recoveries from losses carried forward from prior years.

(b) Includes special short term borrowing made for expansion purposes:
1968 — 4,251,000 1967 — 4,251,000 1966 — 975,000

